

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name		County
Fiscal Year End	Opinion Date		Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☐ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☐ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☐ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☐ The local unit is free of repeated comments from previous years.
12. ☐ ☐ The audit opinion is UNQUALIFIED.
13. ☐ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☐ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature	Printed Name		License Number	

NORTH OAKLAND COUNTY
FIRE AUTHORITY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

NORTH OAKLAND COUNTY FIRE AUTHORITY

AUTHORITY BOARD MEMBERS

Dale Smith
Chester Koop
Alison Kalcec
Edward O'Connor
Mary Wolkow

OTHER AUTHORITY BOARD MEMBERS (non-voting)

Jeremy Lintz - Fire Chief

ATTORNEY

Lyndon J. Lattie

AUDITORS

Pfeffer, Hanniford & Palka
Certified Public Accountants

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PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

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September 12, 2006

Board of Trustees
North Oakland County Fire Authority
P.O. Box 129
Holly, Michigan 48442

INDEPENDENT AUDITORS' REPORT

Honorable Board of Trustees:

We have audited the accompanying financial statements of the North Oakland County Fire Authority as of and for the year ended June 30, 2006. These financial statements are the responsibility of the Authority Board. Our responsibility is to express an opinion on these financial statements based on the audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the government activities of the North Oakland County Fire Authority, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year end in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and other required supplementary information on pages 6 - 9 and pages 28 and 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the North Oakland County Fire Authority's basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information, such as the combining statements and individual fund statements, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants

MANAGEMENT
DISCUSSION
AND
ANALYSIS

Management Discussion and Analysis June 30, 2006

Within this section of the North Oakland County Fire Authority's annual financial report, the Authority's management is providing a narrative discussion and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2006. This narrative discusses and analyzes the activity within the context of the accompanying financial statements and disclosures following this section. The discussion focuses on the Authority's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Overview of the Financial Statements

Management's Discussion and Analysis introduces the Authority's basic financial statements. The basic financial statements include government-wide financial statements, fund financial statements, and notes to the financial statements. The Authority also includes in this report additional information to supplement the basic financial statements.

Government-Wide Financial Statements

The Authority's annual reports include two government-wide financial statements. These statements provide both long-term and short-term information about the Authority's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The first of these government-wide statements is the Statement of Net Assets. This is the Authority-wide statement of position presenting information that includes all the Authority's assets and liabilities, with the difference reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority as a whole is improving or deteriorating. Evaluation of the overall health of the Authority may extend to various non-financial factors as well.

The second government-wide statement is the Statement of Activities which reports how the Authority's net assets changed during the current fiscal year. The design of this statement is intended to show the financial reliance of the Authority's distinct activities or functions on the revenues generated by the Authority.

Both government-wide financial statements distinguish governmental activities of the Authority that are intended to recover all or a significant portion of their costs through user fees and charges or by taxes collected. The Authority's financial reporting includes all the funds of the Authority and, additionally, organizations for which the Authority is accountable.

Fund Financial Statements

A fund is an accountable unit used to maintain control over resources segregated for specific activities or objectives. The Authority uses funds to ensure and demonstrate compliance with finance-related laws and regulations.

The Authority has one type of fund, governmental fund. *Governmental funds* are reported in the financial statements and encompass essentially the same functions as governmental activities in the government-wide financial statements except with a different focus on the financial activity. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of these resources available at the end of the year. They are useful in evaluating annual financing requirements of governmental programs and the commitment of spendable resources for the near-term. Since the focus of the government-wide financial statements includes a long-term view, a reconciliation of these fund balances has been completed to detail its relation to net assets.

Notes to the financial statements

The accompanying notes to the financial statements provide information essential to a full understanding of both the government-wide and fund financial statements.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Other supplementary information includes detail by fund for receivables, payables, transfers, and payments within the reporting entity.

Financial Analysis of the Authority as a Whole

The Authority's net assets at the end of the fiscal year were \$1,372,250. This is a \$138,973 increase from the prior fiscal year.

The following tables provide a summary of the Authority's financial activities and changes in net assets:

Summary of Net Assets

	Governmental Activities	
	<u>6/30/2006</u>	<u>6/30/2005</u>
Current and other assets	\$ 623,492	\$ 469,456
Capital assets	954,402	998,278
Total assets	<u>1,577,894</u>	<u>1,467,734</u>
Accounts payable	11,538	9,845
Accrued expenses	28,017	26,212
Capital leases payable	166,089	198,400
Total liabilities	<u>205,644</u>	<u>234,457</u>
Net assets:		
Invested in capital assets	788,313	799,878
Unrestricted	583,937	433,399
Total net assets	<u>\$ 1,372,250</u>	<u>\$ 1,233,277</u>

Summary of Changes in Net Assets

	Governmental Activities	
	<u>06/30/2006</u>	<u>06/30/2005</u>
Revenues:		
Program revenues		
Charges for services	\$ 133,349	\$ 85,232
Operating grants and contributions	760,161	614,842
Capital grants and contributions	147,321	
General revenues		
Interest income	10,310	9,751
Other	2,021	9,733
Total revenues	<u>1,053,162</u>	<u>719,558</u>
Expenses		
Fire protection	911,941	721,960
Interest on long-term debt	2,248	
Total expenses	<u>914,189</u>	<u>721,960</u>
Increase (decrease) in net assets	138,973	(2,402)
Beginning net assets	<u>1,233,277</u>	<u>1,235,679</u>
Ending net assets	<u>\$ 1,372,250</u>	<u>\$ 1,233,277</u>

Changes in Financial Status and Analysis of Authority's Funds

The Authority increased its fund balance in its two governmental funds by \$150,538. These two major funds, General Fund and Capital Replacement Fund, account for all the fire protection services of the Authority. The substantial increase in the fund balance for the current year is primarily due to the increased member contributions. The member Townships increased contributions in order to fund future capital replacement of the Authority.

Budgetary Highlights

The Authority's budget was adopted prior to the commencement of the fiscal year. During the year, the Authority made amendments to this budget to account for the federal grant funds received/spent during the fiscal year and to account for the additional revenues received from providing ALS services to the area.

Capital Asset and Debt Administration

The Authority acquired \$46,058 of new assets during the fiscal year. These new assets purchased include a new utility truck and various firefighting equipment over its \$5,000 capitalization threshold. The Authority issued \$27,837 of capital lease debt to purchase the new truck, financing it over a three year period.

A total of \$60,148 of principal was paid to reduce the Authority's capital lease debt to \$166,089 at June 30, 2006.

Economic Conditions and Future Activities

Future operations will be primarily funded by taxes and special assessments. Rose Township levies a separate fire millage at 1.5 mills and Holly Township levies a fire special assessment at 1.65 mills of real property only. Each Township collects its related taxes and assessments and makes contributions to the Authority as budgeted. This process is expected to continue into the next fiscal period.

Contacting the Authority's Financial Management

This report is designed to provide a general overview of the Authority's financial position and comply with finance related regulations. If you have any further questions about this report or request additional information please contact the North Oakland County Fire Authority at P.O. Box 129, Holly, MI 48442.

BASIC
FINANCIAL
STATEMENTS

GOVERNMENT - WIDE
FINANCIAL STATEMENTS

NORTH OAKLAND COUNTY FIRE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Primary Government - Governmental Activities
<u>ASSETS</u>	
Cash and cash equivalents	\$ 595,851
Accounts receivable	27,641
Capital assets - net of depreciation	<u>954,402</u>
Total assets	<u>1,577,894</u>
<u>LIABILITIES</u>	
Accounts payable	11,538
Accrued wages	28,017
Capital leases payable	
Current portion	56,612
Non-current portion	<u>109,477</u>
Total liabilities	<u>205,644</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	788,313
Unrestricted	<u>583,937</u>
Total net assets	<u>\$ 1,372,250</u>

The notes are an integral part of the financial statements.

NORTH OAKLAND COUNTY FIRE AUTHORITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental activities:					
Fire protection	\$ (911,941)	\$ 133,349	\$ 760,161	\$ 147,321	\$ 128,890
Interest on long-term debt	<u>(2,248)</u>	<u> </u>	<u> </u>	<u> </u>	<u>(2,248)</u>
Total governmental activities	<u>\$ (914,189)</u>	<u>\$ 133,349</u>	<u>\$ 760,161</u>	<u>\$ 147,321</u>	<u>\$ 126,642</u>
		General revenues			
		Interest income			10,310
		Other income			<u>2,021</u>
		Total general revenues			<u>12,331</u>
		Changes in net assets			138,973
		Net assets, July 1, 2005			<u>1,233,277</u>
		Net assets, June 30, 2006			<u>\$ 1,372,250</u>

The notes are an integral part of the financial statements.

FUND
FINANCIAL
STATEMENTS

NORTH OAKLAND COUNTY FIRE AUTHORITY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	<u>Major Funds</u>		
	<u>General</u>	<u>Capital Replacement Fund</u>	<u>Total</u>
<u>ASSETS</u>			
ASSETS			
Cash and cash equivalents	\$ 418,398	\$ 177,453	\$ 595,851
Accounts receivable	<u>27,641</u>	<u></u>	<u>27,641</u>
Total assets	<u>\$ 446,039</u>	<u>\$ 177,453</u>	<u>\$ 623,492</u>
<u>LIABILITIES AND FUND BALANCE</u>			
LIABILITIES			
Accounts payable	\$ 11,538	\$	\$ 11,538
Accrued wages	<u>28,017</u>	<u></u>	<u>28,017</u>
Total liabilities	<u>39,555</u>	<u></u>	<u>39,555</u>
FUND BALANCES			
Unreserved	406,484		406,484
Designated	<u></u>	<u>177,453</u>	<u>177,453</u>
Total fund balances	<u>406,484</u>	<u>177,453</u>	<u>583,937</u>
Total liabilities and fund balances	<u>\$ 446,039</u>	<u>\$ 177,453</u>	<u>\$ 623,492</u>

The notes are an integral part of the financial statements.

NORTH OAKLAND COUNTY FIRE AUTHORITY
RECONCILIATION OF STATEMENT OF NET ASSETS
OF GOVERNMENTAL FUNDS TO THE BALANCE SHEET
JUNE 30, 2006

Amounts reported for governmental activities in the Statement
of Net Assets are different because:

Total fund balance per balance sheet	\$ 583,937
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Capital assets used in governmental activities are not financial
resources and therefore, are not reported in the funds.

Historical cost	\$ 1,707,303
Depreciation	<u>(752,901)</u>

Capital assets net of depreciation	954,402
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Some liabilities are not due and payable in the current period
and therefore are not reported in the funds. These include:

Capital leases payable	<u>(166,089)</u>
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Net assets of governmental activities	<u>\$ 1,372,250</u>
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The notes are an integral part of the financial statements.

NORTH OAKLAND COUNTY FIRE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Major Funds		
	General	Capital Replacement Fund	Total
REVENUES			
Township contributions	\$ 759,936	\$	\$ 759,936
Grant - federal	147,321		147,321
Charges for services	133,349		133,349
Donations	225		225
Interest	4,848	5,462	10,310
Miscellaneous	<u>2,021</u>		<u>2,021</u>
Total revenues	<u>1,047,700</u>	<u>5,462</u>	<u>1,053,162</u>
EXPENDITURES			
Personnel	399,414		399,414
Capital outlay	223,241		223,241
Debt service	62,396		62,396
Other fire protection expenditures	<u>245,410</u>		<u>245,410</u>
Total expenditures	<u>930,461</u>		<u>930,461</u>
Excess of revenues over (under) expenditures	<u>117,239</u>	<u>5,462</u>	<u>122,701</u>
OTHER FINANCING SOURCES (USES)			
Lease proceeds	27,837		27,837
Transfers in		42,609	42,609
Transfers (out)	<u>(42,609)</u>		<u>(42,609)</u>
Total other financing sources (uses)	<u>(14,772)</u>	<u>42,609</u>	<u>27,837</u>
Net changes in fund balances	102,467	48,071	150,538
FUND BALANCE, JULY 1, 2005	<u>304,017</u>	<u>129,382</u>	<u>433,399</u>
FUND BALANCE, JUNE 30, 2006	<u>\$ 406,484</u>	<u>\$ 177,453</u>	<u>\$ 583,937</u>

The notes are an integral part of the financial statements.

NORTH OAKLAND COUNTY FIRE AUTHORITY
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - governmental funds	\$ 150,538
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Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their useful lives as depreciation expense. The amount by which depreciation exceeded capital outlay is as follows:

Capital outlay	\$ 46,058
Depreciation expense	<u>(89,934)</u>
Total	(43,876)

Proceeds from long-term debt provide current financial resources to governmental funds, but the issuing of debt increase long-term liabilities in the Statement of Activities

Proceeds from capital leases	(27,837)
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Repayment of principal on capital lease debt is an expenditure in the governmental funds, but is a repayment of a long-term liability in the Statement of Activities:

Capital lease principal paid	<u>60,148</u>
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Change in net assets of governmental activities	<u>\$ 138,973</u>
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The notes are an integral part of the financial statements.

NOTES
TO
FINANCIAL
STATEMENTS

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The North Oakland County Fire Authority was organized under Public Act No. 57, of the Public Acts of 1988, as amended in December of 2001. The Authority approved a fiscal year-end date of June 30. The purpose of the Authority is to provide fire protection and other emergency health and safety services. The governing board of the Authority is made up of five board members. Four of those board members come from the following incorporating municipalities:

- Rose Township
- Holly Township

The fifth board member is a citizen at large agreed upon by both incorporating municipalities.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 39 "The Financial Reporting Entity", these financial statements present all activities of the Authority. There are no component units of the Authority using the criteria established by the GASB for determining the reporting entity.

B. BASIC FINANCIAL STATEMENTS

In accordance with GASB Statement No. 34 - *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements (Statement of net Assets and Statement of Activities) report on the Authority as a whole. All activities are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The government-wide Statement of Net Assets reports all financial and capital resources of the Authority. It is displayed in a format of assets less liabilities equals net assets, with the assets and liabilities shown in order of their relative liquidity.

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The government-wide Statement of Activities demonstrates the degree to which both direct and indirect expenses of the various functions and programs of the Authority are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or identifiable activity. Indirect expenses for administrative overhead are allocated among the functions and activities using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or program and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes, unrestricted investment income and other revenues not identifiable with particular functions or programs are included as general revenues. The general revenues support the net costs of the functions and programs not covered by program revenues.

Included in the basic financial statements are fund financial statements for the governmental funds. The focus of the fund financial statements is major funds, as defined by GASB Statement No. 34. Although this reporting model sets forth minimum criteria for determination of major funds (a percentage of assets, liabilities, revenues, or expenditures of fund category and of the governmental funds combined), it also gives governments the option of displaying other funds as major funds. Other non-major funds are combined in a single column on the fund financial statements.

The Authority reports the following major governmental funds:

The General Fund is the Authority's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Reserve Equipment Fund accounts for the activity associated with the acquisition of capital assets. This fund is supported by the General Fund transfers.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The governmental fund financial statements are prepared with a focus on current financial resources measurement using the modified accrual basis of accounting. To conform to the modified accrual basis of accounting, certain revisions are made to the accrual method. These modifications are outlined below:

1. Revenue is recorded when it becomes both measurable and available (received within 60 days after year-end). Revenue considered susceptible to accrual includes: property taxes, sales and use taxes, transient occupancy taxes, licenses, fees and permits, intergovernmental revenues (including motor vehicle license fees), charges for services, fines, forfeits and penalties, and interest.
2. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Disbursement for the purchase of capital assets providing future benefits are considered expenditures. Any bond, loan, or capital lease proceeds are reported as another financing source.

With this measurement focus, operating statements present increases and decreases in net current assets and unreserved fund balance as a measure of available spendable resources.

This is the traditional basis of accounting used for governmental funds and is also the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance, 2) demonstrate the sources and uses of liquid resources, and 3) demonstrate how the Authority's actual revenues and expenditures conform to the annual budget. Since the governmental funds financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement. These reconciliations briefly explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

D. CAPITAL ASSETS

Under GASB Statement No. 34, all capital assets are recorded and depreciated in the government-wide financial statements. No long-term capital assets or depreciation are shown in the governmental funds' financial statements.

Capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. Capital assets are recorded at cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

E. MANAGEMENT ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. BUDGETS

The General and Capital Reserve Funds annual operating budget was developed using the modified accrual basis of accounting which is consistent with accounting principles generally accepted in the United States of America. The budget can be amended by approval from the Authority's Board and the member municipalities. The budget amounts shown in the financial statements are the final authorized amounts as revised during the year. All annual appropriations lapse at the fiscal year end. As shown in the Statements of Revenues, Expenditures and Changes in Fund Balance, the Authority's actual expenditures for personnel and insurance exceeded appropriations.

G. RISK MANAGEMENT

The Authority is exposed to various risks of loss pertaining to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Authority has purchased commercial insurance for these claims. Settled claims related to the commercial insurance have not exceeded the amount of insurance coverage.

H. ACCRUED COMPENSATED ABSENCES

The Authority has not recorded a liability for compensated absences of the fire department. The policies regarding compensated absences are outlined in the Authority's "Rules of Employment".

NOTE 2 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	Balance at <u>7-1-05</u>	<u>Additions</u>	<u>Deletions</u>	Balance at <u>6-30-06</u>
Equipment	\$ 67,551	\$ 18,221	\$	\$ 85,772
Vehicles	1,398,127	27,837		1,425,964
Leasehold improvements	<u>195,567</u>	<u> </u>	<u> </u>	<u>195,567</u>
Total cost	1,661,245	46,058		1,707,303
Accumulated depreciation	<u>(662,967)</u>	<u>(89,934)</u>	<u> </u>	<u>(752,901)</u>
Capital assets, net	<u>\$ 998,278</u>	<u>\$ (43,876)</u>	<u>\$</u>	<u>\$ 954,402</u>

Depreciation expense is being recorded solely for fire protection services. The Authority utilizes the straight line method to depreciate capital assets over their estimated useful lives. Total depreciation was \$89,934 for the year ended June 30, 2006.

There was \$166,089 of capital lease debt associated with these assets.

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 3 - CAPITAL LEASES PAYABLE

The Authority has the following capital lease debt:

1. The Authority has entered into a capital lease with The State Bank to finance the purchase of a 2005 Crimson Pumper. The lease calls for annual payments of \$52,524 with an interest rate of 3.35%. The lease expires during the year ended June 30, 2009.
2. The Authority has entered into a capital lease with The State Bank to finance the purchase of a 2005 Ford F-250 Utility truck. The lease calls for annual payments of \$9,873 with an interest rate of 4.45%. The lease expires during the year ended June 30, 2008.

	<u>Balance at 7-1-05</u>	<u>Lease Proceeds</u>	<u>Principle Paid</u>	<u>Balance at 6-30-06</u>
Capital lease payable				
The State Bank - Pumper	\$ 198,400	\$	50,812	\$ 147,588
The State Bank - Utility Truck		<u>27,837</u>	<u>9,336</u>	<u>18,501</u>
Total	<u>\$ 198,400</u>	<u>\$ 27,837</u>	<u>\$ 60,148</u>	<u>\$ 166,089</u>

The following is a schedule of principle and interest payments to service the capital lease obligations of the Authority:

	<u>Capital Leases Payable</u>	
	<u>Principle</u>	<u>Interest</u>
2006-2007	\$ 56,612	\$ 5,785
2007-2008	58,599	3,798
2008-2009	<u>50,878</u>	<u>1,646</u>
Total	<u>\$ 166,089</u>	<u>\$ 11,229</u>

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 4 - LEASE AGREEMENTS - (BUILDINGS)

The Authority operates its fire protection services from three fire stations owned by the member townships. Rent is not charged to operate its services from these stations, but the Authority is responsible for maintaining the premises. Insurance coverage is held by the respective townships. The Authority does not expect this arrangement to be altered within the next fiscal year.

NOTE 5 - EMPLOYEE RETIREMENT PLAN

The Authority's fire chief participates in the Township of Holly's defined contribution plan. This is a single-employer plan with the fire chief being the only class of employee allowed to participate. The Authority is required to contribute 10% of the employee's gross salaried wages. Contribution information is as follows:

TOTAL CURRENT YEAR EMPLOYER CONTRIBUTIONS	\$ <u>6,792</u>
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This balance reflects contributions for the period from July 1, 2005 to June 30, 2006.

NOTE 6 - DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Authority to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers; acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Authority deposits are in accordance with statutory authority. The Authority maintains an imprest petty cash balance of \$100.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Authority's deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured	\$ 100,000	\$ 100,000
Uninsured and uncollateralized	<u>495,751</u>	<u>500,643</u>
	<u>\$ 595,751</u>	<u>\$ 600,643</u>

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 7 - DESIGNATED FUND BALANCE

As of June 30, 2006 there was a total of \$177,453 of fund balance that was designated for future capital improvements. This designated fund balance is recorded in the Capital Replacement Fund and has accumulated due to transfers made from the Authority's General Fund.

NOTE 8 - FEDERAL GRANT ACTIVITIES

The Authority has received a federal grant from the United States Department of Homeland Security. The total amount awarded was \$168,216. The Authority must match an additional \$8,853 as its required 5% match. Thus, the total amount of \$177,069 must be spent on new firefighting equipment. Through June 30, 2006 the Authority spent \$154,475. The funds received from the United States Department of Homeland Security are subject to all federal grant audit requirements. There has been no federal audit on the funds through the report date of these financial statements.

REQUIRED
SUPPLEMENTARY
INFORMATION

NORTH OAKLAND COUNTY FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Budget			Variance with Final Budget Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Township contributions	\$	\$	\$ 759,936	\$
Grant - federal			147,321	
Interest			4,848	
Charges for services			133,349	
Miscellaneous			<u>2,246</u>	
Total revenues	859,436	1,088,698	1,047,700	(40,998)
EXPENDITURES	<u>809,436</u>	<u>974,174</u>	<u>930,461</u>	<u>43,713</u>
Excess of revenues over (under) expenditures	<u>50,000</u>	<u>114,524</u>	<u>117,239</u>	<u>2,715</u>
OTHER FINANCING SOURCES (USES)				
Loan proceeds			27,837	27,837
Transfers (out)	<u>(50,000)</u>	<u>(53,279)</u>	<u>(42,609)</u>	<u>10,670</u>
Total other financing sources (uses)	<u>(50,000)</u>	<u>(53,279)</u>	<u>(14,772)</u>	<u>38,507</u>
Net changes in fund balances		61,245	102,467	41,222
FUND BALANCE, JULY 1, 2005	<u>304,017</u>	<u>304,017</u>	<u>304,017</u>	
FUND BALANCE, JUNE 30, 2006	<u>\$ 304,017</u>	<u>\$ 365,262</u>	<u>\$ 406,484</u>	<u>\$ 41,222</u>

NORTH OAKLAND COUNTY FIRE AUTHORITY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006

- A budget was not adopted for the Capital Replacement Fund. This is a special revenue fund and is required to have a budget under State of Michigan Public Act 493 of 2000.

SUPPLEMENTARY
INFORMATION

NORTH OAKLAND COUNTY FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Amended Budget	Actual	Variance Favorable (Unfavorable)
REVENUES	<u>\$ 1,088,698</u>	<u>\$ 1,047,700</u>	<u>\$ (40,998)</u>
EXPENDITURES			
Personnel	398,583	399,414	(831)
Supplies	29,780	23,999	5,781
Contracted services	69,025	59,570	9,455
Operating expenditures	101,200	95,277	5,923
Debt service	62,700	62,396	304
Capital outlay	252,216	223,241	28,975
Insurance	<u>60,670</u>	<u>66,564</u>	<u>(5,894)</u>
Total expenditures	<u>974,174</u>	<u>930,461</u>	<u>43,713</u>
Excess of revenues over (under) expenditures	<u>114,524</u>	<u>117,239</u>	<u>2,715</u>
OTHER FINANCING SOURCES (USES)			
Loan proceeds		27,837	27,837
Transfers (out)	<u>(53,279)</u>	<u>(42,609)</u>	<u>10,670</u>
Total other financing sources (uses)	<u>(53,279)</u>	<u>(14,772)</u>	<u>38,507</u>
Net changes in fund balances	61,245	102,467	41,222
FUND BALANCE, JULY 1, 2005	<u>304,017</u>	<u>304,017</u>	
FUND BALANCE, JUNE 30, 2006	<u>\$ 365,262</u>	<u>\$ 406,484</u>	<u>\$ 41,222</u>

NORTH OAKLAND COUNTY FIRE AUTHORITY
GENERAL FUND
STATEMENT OF REVENUES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Contribution - Holly Township	\$	\$ 379,968	\$
Contribution - Rose Township		379,968	
Cost recovery		4,952	
Medical run fees		126,267	
Inspection service		2,130	
Interest income		4,848	
Federal grant		147,321	
Donations		225	
Miscellaneous		<u>2,021</u>	
Total revenues	<u>\$ 1,088,698</u>	<u>\$ 1,047,700</u>	<u>\$ (40,998)</u>

NORTH OAKLAND COUNTY FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006

	Amended Budget	Actual	Variance Favorable (Unfavorable)
PERSONNEL			
Salaries	\$	\$ 358,678	\$
Payroll taxes		27,298	
Health insurance		6,646	
Pension		6,792	
Total personnel	<u>398,583</u>	<u>399,414</u>	<u>(831)</u>
SUPPLIES			
Non - operating supplies		3,664	
Operating supplies		6,220	
Fire prevention		2,295	
Uniforms		3,944	
Medical supplies		7,876	
Total supplies	<u>29,780</u>	<u>23,999</u>	<u>5,781</u>
CONTRACTED SERVICES			
Dispatching		12,525	
Auditing fees		4,850	
Legal fees		650	
Medical billing		12,233	
Administrative services		2,650	
Education and training		16,508	
Dues and subscriptions		1,407	
Payroll services		2,880	
Construction labor		1,767	
Computer services		4,100	
Total contracted services	<u>69,025</u>	<u>59,570</u>	<u>9,455</u>
OPERATING EXPENDITURES			
Communications		10,676	
Transportation		12,056	
Printing and publishing		804	
Utilities		25,441	
Repair and maintenance - grounds maintenance		10,817	
Repair and maintenance - equipment		5,067	
Repair and maintenance - vehicles		27,263	
Lease - equipment		2,903	
Miscellaneous		250	
Total operating expenditures	<u>101,200</u>	<u>95,277</u>	<u>5,923</u>

NORTH OAKLAND COUNTY FIRE AUTHORITY
GENERAL FUND
STATEMENT OF EXPENDITURES - BUDGET AND ACTUAL (continued)
FOR THE YEAR ENDED JUNE 30, 2006

	Amended Budget	Actual	Variance Favorable (Unfavorable)
DEBT SERVICE	<u>62,700</u>	<u>62,396</u>	<u>304</u>
CAPITAL OUTLAY			
Grant purchases - equipment		154,475	
Small equipment		32,692	
Capital outlay		<u>36,074</u>	
Total capital outlay	<u>252,216</u>	<u>223,241</u>	<u>28,975</u>
INSURANCE			
General liability		43,392	
Worker compensation		18,753	
Firefighter protection		<u>4,419</u>	
Total insurance	<u>60,670</u>	<u>66,564</u>	<u>(5,894)</u>
Total expenditures	<u>\$ 974,174</u>	<u>\$ 930,461</u>	<u>\$ 43,713</u>

NORTH OAKLAND COUNTY
FIRE AUTHORITY

COMMENTS
AND
RECOMMENDATIONS

FOR THE YEAR ENDED JUNE 30, 2006



PFEFFER ■ HANNIFORD ■ PALKA
Certified Public Accountants

John M. Pfeffer, C.P.A.
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September 12, 2006

Board of Trustees
North Oakland County Fire Authority
P O Box 129
Holly, Michigan 48442

Honorable Board of Trustees:

In planning and performing our audit of the financial statements of North Oakland County Fire Authority for the year ended June 30, 2006, we considered the Authority's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit we became aware of one matter that is an opportunity for strengthening internal controls and operating efficiency.

1. COMMENT

A budget was not adopted for the Capital Reserve Fund.

RECOMMENDATION

A budget should be adopted for the Capital Reserve Fund. It is a special revenue fund and is required by the State of Michigan to have an approved budget.

This letter does not affect our report dated September 12, 2006 on the financial statements of the North Oakland County Fire Authority.

We will review the status of the comment during our next audit engagement.

This report is intended solely for the information and use of the Board of Trustees, and management of the North Oakland County Fire Authority.

Pfeffer, Hanniford & Palka, P.C.

PFEFFER, HANNIFORD & PALKA
Certified Public Accountants